



**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2020

**ACCOUNTING P1
FINANCIAL REPORTING AND EVALUATION
MARKING GUIDELINE**

MARKS: 150

MARKING PRINCIPLES:

1. Unless otherwise indicated in the marking guideline, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If the answer is incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: If figures are stipulated in marking guideline for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers.
7. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer.
9. 'Operation' means 'check operation'. 'One part correct' means 'operation and one part correct'. Note: Check operation must be +, -, x, ÷, or as per marking guideline.
10. In calculations, do not award marks for workings if numerator and denominator are swapped – this also applies to ratios.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
13. Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 10 pages.

QUESTION 1: CORPORATE GOVERNANCE AND AUDIT REPORT

1.1

1.1.1	D ✓
1.1.2	A ✓
1.1.3	B ✓
1.1.4	C ✓

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1.2 **AUDIT REPORT**

1.2.1

Where, why and when is this audit report expected to be presented?	
Where	Any one valid answer ✓ At the Annual General Meeting (AGM) On the Annual Report to shareholders On financial publications and newspapers On the internet
Why	Any one valid answer ✓ Inform shareholders / potential investors about the performance / progress of the company. If there is any compliance with the IFRS. Transparency Public company financial statement needs to be published. Auditors, appointed by shareholders, are answerable to them.
When	Any one valid answer ✓ At the end of the financial period Upon completion of the independent audit process On the date of the AGM and thereafter

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1.2.2

Provide TWO points why the independent auditors make reference to pages 12–30 of the Annual Report.	
	Any two valid points ✓✓ ✓✓
	<ul style="list-style-type: none"> • The financial statements are contained in those pages of the Annual Report; other reports are also included in the Annual Report, which were not prepared or inspected by them. • The auditors are responsible for a certain part of the report. • Directors are responsible for parts of the report as prepared by them.

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1.2.3

Explain TWO points on the impact of this report on the company.

Any two valid points ✓✓ ✓✓

- Prospective investors might no longer be interested to this company.
- Existing shareholders may want to sell their shares.
- It will ruin the reputation/image of the company.
- Will reduce the value of shares from the JSE.

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TOTAL MARKS

15

QUESTION 2: STATEMENT OF COMPREHENSIVE INCOME**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020.**

Sales		6 720 000	
Cost of sales	Sales – GP	(4 200 000)	<input checked="" type="checkbox"/>
Gross profit	GOI – RI or OOI	2 520 000	<input checked="" type="checkbox"/>
Other operating Income		142 080	
Rent income	153 120 ✓ - 11 040 ✓✓	142 080	<input checked="" type="checkbox"/> *
Gross operating Income		2 662 080	
Operating expenses		(1 738 080)	
Directors fees	384 000 ✓ + 158 400 ✓ <input checked="" type="checkbox"/> 172 800 – 14 400 2 marks 384 000 + 172 800 – 14 400	542 400	<input checked="" type="checkbox"/> *
Salaries and Wages	812 000 ✓ – 556 800 ✓ <input checked="" type="checkbox"/> + 9 720 ✓✓ 384 000 + 172 800	264 920	<input checked="" type="checkbox"/> *
Employers contribution	22 080 ✓ + 1 920 ✓	24 000	<input checked="" type="checkbox"/>
Advertising	11 650 ✓ + 3 000 ✓✓	14 650	<input checked="" type="checkbox"/> *
Audit fees		120 000	
Depreciation		340 000	
Sundry expenses		432 110	
Operating profit	GOI – OE	924 000	<input checked="" type="checkbox"/>
Interest income	Balancing Figure OPBIE – OP	21 000	<input checked="" type="checkbox"/>
Operating profit before interest expense	NPBT + IE	945 000	<input checked="" type="checkbox"/>
Interest expense		(36 000)	<input checked="" type="checkbox"/>
Net profit before tax	*(272 700 × $\frac{100}{30}$)	909 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Income tax		(272 700)	
Net profit after tax	*NPBT – income tax	636 300	<input checked="" type="checkbox"/>

*OR Net profit before tax: (NPAT – 272 700) 1 mark

Net profit after tax: $272\,700 \times \frac{70}{30} = 636\,300$ 2 marks

TOTAL MARKS

30

QUESTION 3: STATEMENT OF FINANCIAL POSITION, SHARE CAPITAL NOTE**3.1 Share Capital**

Authorised Share Capital: 3 000 000 ordinary shares		
Issued Share capital:		
1 800 000	Shares in issue at beginning of year <i>x R6,00 ** (as to be ASP)</i>	10 800 000 <input checked="" type="checkbox"/>
(120 000)	Shares repurchased at ASP of R6 ✓✓ per share 7,20 / 1,2	(720 000) <input checked="" type="checkbox"/> *
240 000 ✓✓	Additional shares issued during the year at R6,60 per share	1 584 000 <input checked="" type="checkbox"/> *
1 920 000 <input checked="" type="checkbox"/>	Shares in issue at the end of the year Operation	11 664 000 <input checked="" type="checkbox"/>

9

**Must not accept if R7,20 or more

*One part correct

3.2 STATEMENT OF FINANCIAL POSITION ON 31 AUGUST 2020.

NON-CURRENT ASSETS		8 951 200	✓	
Fixed assets		8 121 000		
Financial assets		830 200		
CURRENT ASSETS	TA – NCA	5 312 800	☑	
Inventories	60 x 1 750 (2 340 000 ✓ + 105 000 ✓✓)	2 445 000	*☑	
Trade and other receivables	Balancing figure	2 000 000	☑	
Cash and cash equivalents	864 800 + 3 000	867 800	✓	
TOTAL ASSETS	See TE+L	14 264 000	☑	10
EQUITY AND LIABILITIES				
SHAREHOLDER EQUITY	Operation	11 678 960	☑	
Ordinary share capital	See 3.1	11 664 000	☑	
Retained income		14 960		
NON-CURRENT LIABILITIES		1 487 200		
Loan: Tambo Bank	(1 840 000 + 130 800 - 307 200) two marks 1 663 600 ✓☑ – 176 400 ✓	1 487 200	*☑	6
CURRENT LIABILITIES		1 097 840		
Trade and other payables		463 840		
Current Portion of Loan	See loan above	176 400	☑	
SARS (Income tax)	Balancing figure	35 200	☑	
Shareholders for Dividends	See 3.1 1 920 000 x 22c	422 400	*☑	
TOTAL EQUITY AND LIABILITIES	Operation	14 264 000	☑	21

*One part correct

5

TOTAL MARKS**30**

QUESTION 4: CASH FLOW STATEMENT, FINANCIAL INDICATORS

4.1	4.1.1	False ✓	3
	4.1.2	True ✓	
	4.1.3	False ✓	

4.2.1	CASH GENERATED FROM OPERATIONS			9
	Profit before tax	980 000 + 420 000	1 400 000 <input checked="" type="checkbox"/> ✓*	
	Depreciation		390 000	
	Interest expense		452 000	
	Net profit before changes in working capital	Operation	2 242 000 <input checked="" type="checkbox"/>	
	Net change in working capital	Operation	(1 230 700) <input checked="" type="checkbox"/>	
	Change in inventory		(915 100)	
	Change in receivables	332 200 – 305 800	26 400 <input checked="" type="checkbox"/> ✓*	
	Change in payables	963 000 – 621 000	(342 000) <input checked="" type="checkbox"/> ✓*	
	Cash generated from operations	Operation	1 011 300 <input checked="" type="checkbox"/>	

NOTE: The figure and the bracket (or no bracket) must be correct to earn the mark in the money column. *One part correct

4.2.2	CASH EFFECT FROM FINANCING ACTIVITIES			7
	Proceeds from shares issued		397 500 ✓	
	Repurchase of shares	$360\,000 \times 7,95$ 2 862 000 ✓✓ + 162 000 ✓	(3 024 000) * <input checked="" type="checkbox"/>	
	Long-term loans received	3 850 000 – 3 080 000	770 000 ✓	
		Operation	(1 856 500) <input checked="" type="checkbox"/>	

NOTE: The figure and the bracket (or no bracket) must be correct to earn the mark in the money column. *One part correct

QUESTION 5: INTERPRETATION OF COMPANY INFORMATION

5.1 **Compare the liquidity position of both companies and comment on the company that is managing the short term assets more effectively.**

Financial indicators (with figures and trend) ✓✓ ✓✓ Comment on one company ✓✓

LOCK LTD	Although current ratio decreased from 2,1 : 1 to 1,9 : 1, the acid test ratio remains fairly consistent at 1,3 : 1 compared to 1,4 : 1 the previous year.
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DOWN LTD	The acid test ratio is consistent at 1,5 : 1 whilst the current ratio increased from 2,8 : 1 to 3,6 : 1.
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COMMENT	<p>Lock Ltd appears to control working capital more efficiently by ensuring that stock is moving. They also have enough current assets (cash) to meet short term liabilities.</p> <p style="text-align: center;">OR</p> <p>Down Ltd is not managing stock effectively. Whilst they would not experience cash flow problems, they are holding too much stock which may contribute to low profitability.</p>
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5.2 **Compare the dividend pay-out policy of each company.**

LOCK LTD	Dividend pay-out rate is 52% (45/86) compared to 81% (65/80) in 2019. ✓✓
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DOWN LTD	Dividend pay-out rate is 86% (60/70) in 2020 and 86% (62/72) in 2019. Down Ltd has maintained the dividend pay-out rate at 86% ✓✓
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4

Provide TWO possible reasons why one company decided to change their policy.

Any TWO reasons ✓✓ ✓✓

They are retaining earnings to concentrate on growth.
 They want to ease cash-flow problems and continue managing expenses to improve profitability.
 They want to sustain the trend of increasing profitability and return on equity so shareholders can see the long-term prospects of the company.

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5.3

Lock Ltd decided to increase their loans during the current financial year, whilst Down Ltd decided to maintain their existing loans. Comment on the decisions of both companies. Make reference to the degree of risk and gearing.

LOCK LTD	Debt/ equity ratio increased from 0,3 : 1 to 0,6 : 1 ✓ ROTCE increased from 12% to 15% ✓ Although the business is now highly geared ✓ the loan is being effectively used to improve profitability. Business is positively geared so the decision was appropriate. ✓
DOWN LTD	Debt/ equity ratio remained constant at 0,4 : 1 ✓ ROTCE decreased from 13% to 11,7% ✓ Although the business is low geared ✓ the loan is not being effectively used as the business is negatively geared so it would be wise to start paying back the loan, or improve strategies to improve profitability. ✓

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5.4

A shareholder of Down Ltd is concerned about the drop in the market price of the shares. Explain why they feel this way. Provide TWO points.

Any 2 valid points ✓✓ ✓✓
This reflects the public demand for shares is low / public confidence in company has decreased.
Shareholders want capital growth on their investment.
Directors will be judged on the performance of the shares.
The market price dropped below the net asset value.

4

5.5

M. Mtolo owns 576 000 shares in Down Ltd, which represents 48% of the total issued shares. He wants to purchase another 25 000 shares.

5.5.1

Do a calculation to show how this would change his % shareholding in the company.

$$\frac{576\,000 + 25\,000}{601\,000} \div \frac{576\,000}{1\,200\,000} \div 48\% \times 100 = 50,1\% \quad \checkmark$$

5

Provide TWO reasons why you think he is specifically interested in increasing his shareholding in Down Ltd.

5.5.2

TWO points ✓✓ ✓✓
He wants to be the majority shareholder.
He wants to influence strategic decisions.
He is aware of the poor performance of the business and thinks that he can make a difference.
He sees potential in the company and wants to be part of the future growth.
He wants to implement corrective measures to address the downward trends in many of the financial indicators.

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TOTAL MARKS
35

TOTAL: 150